

Date: November 17, 2010

To: Workgroup III

From: Ted Williams, Workgroup Chairperson

Re: 2014 Purchasing Exchange Elements

I have worked with Dr. Carlyle and Anne Kinzel to develop a list of elements that should be considered for inclusion in a 2014 Iowa Health Benefit Purchasing Exchange.

Our Workgroup currently has several recommendations before us that suggest that Iowa should move ahead quickly to establish an Iowa purchasing exchange in 2014. There appeared to be consensus at the meeting on November 10th that the state would be better served by an Iowa exchange and not a federal 'default exchange.' While the existing recommendations are clear in calling for an Iowa purchasing exchange, there is little meat on the bones. Given the short time frame to establish an exchange, I think we need to need to add some flesh to these recommendations. While the list is certainly not exhaustive, I think we should consider the following elements for inclusion in a 2014 Iowa Purchasing Exchange recommendation from Workgroup III to the overall Commission.

You have all shown great dedication to the work of our group. This memo is long and I appreciate your effort in reading through it before our meeting this Friday.

# 1. Federal Exchange Guidance And Requirements – Brief Background.

By way of background, Table 1 provides a brief outline of PPACA Exchange requirements.

TABLE 1. FEDERAL EXCHANGE GUIDANCE AND REQUIREMENTS

The PPACA requires that each state exchange provide the following services:

- ✓ Certify plans for participation in the exchange, including implementing procedures for plan certification, recertification and decertification based on federal guidelines.
- ✓ Make qualified health plans available to eligible individuals and employers.
- ✓ Provide customer assistance by website and telephone. The website must allow prospective and actual enrollees access to standardized comparative plan information. A toll-free telephone hotline must also be available.
- ✓ Grade health plans in accordance with still developing US-HHS standards.
- ✓ Provide information to individuals and employers, including providing information on eligibility requirements for Medicaid, CHIP and any applicable state/local public program. The exchange will provide an electronic calculator that allows users to determine the actual cost of coverage after accounting for PPACA premium tax credits and cost sharing reductions. The exchange must publish: the average costs of licensing, regulatory fees, other payments required by exchange; and exchange administrative costs. The exchange must also provide employers with the names of any employees who stop coverage under a qualified health plan during a plan year.
- ✓ Administer exemptions to the individual responsibility penalty when:
  - No affordable qualified health plan is available through the exchange; or
  - The individual meets the requirements for another exemption from the requirement or penalty.
- ✓ Provide information to federal government regarding:
  - Persons issued an exemption certificate;
  - Employees found eligible for premium tax credits; and
  - People who tell the exchange they changed employers and stopped coverage during a plan year.
- ✓ Facilitate community-based assistance by establishing a Navigator program.
- ✓ Have an annual open enrollment period, special enrollment periods, and monthly enrollment periods for Native Americans.

## 1. EXCHANGE – COMMISSION ROLE AND PUBLIC PROGRAM COORDINATION

- In 2011, the Iowa Legislative Health Care Coverage Commission should assist in the development of a 2014 Iowa Purchasing Exchange, including the development of a plan for the integration and transition of existing public programs and population groups to the exchange.
- ✓ The Commission, working with the Department of Human Services, the Iowa Insurance Division, the Department of Public Health, the Department of Human Services, and the Department of Revenue should assist in purchasing exchange planning, including the development of a plan for the integration and transition of various public programs currently in existence, including but not limited to the Iowa Comprehensive Health

Insurance Association (Iowa's high risk pool), the IowaCare program, the Iowa Medicaid programs, and other programs as needed.

\* \* \* \* \*

## 2. EXCHANGE MISSION.

- The 2014 Iowa Health Benefit Purchasing Exchange must focus on the needs of Iowa health care consumers and purchasers.

### DISCUSSION

To ensure the exchange is able to assist Iowans in obtaining and maintaining access to affordable health care for years to come, the exchange must be guided by clearly defined consumer-focused principles that will guide the exchange's governing board and executive team. These principles will send a signal to consumers, carriers and employers that the exchange is working in the best interest of health care consumers and purchasers.

\* \* \* \* \*

## 3. EXCHANGE GOVERNANCE.

- The 2014 Iowa Health Benefit Purchasing Exchange should be guided by an independent governing board and led by a strong executive team.
- ✓ Board Responsibilities. Provide policy guidance to the exchange leadership team, focusing on implementation issues, policy development and business sustainability as the leadership team implements and administers the exchange based on the exchange's guiding principles and federal requirements.
- ✓ Board Meetings. The board should meet a minimum of once per month to guide the implementation of the exchange and eventually administer the exchange once it is fully operational in 2014. During the exchange implementation stage the exchange board will need to meet a minimum of twice a month as the executive team comes on board.
- ✓ Board Membership. Membership should be broadly representative and include as members individuals chosen for their professional and community leadership and experience.
  - Board members should be chosen for their professional and community leadership and experience, rather than as representatives of identified constituencies. The board should include persons with excellent backgrounds in business, consumer advocacy, health care and community service.

- The board should include as ex officio (non voting) members the directors of the Department of Public Health and the Department of Human Services, and the Iowa Insurance Commissioner.
- ✓ Board Appointment. Board members should be appointed by the governor and confirmed by the Iowa Senate. Terms should be staggered and after the first group of appointees, last for four (4) years with the opportunity for one reappointment for an additional four (4) year term. In the event of a vacancy, the governor should immediately appoint a replacement member.
- ✓ Board Advisory Bodies. The PPACA requires state exchanges to consult with stakeholders, including qualified health plan enrollees, individuals or organizations that help people enroll in plans, small business and self-employed representatives, state Medicaid programs, and advocates for enrolling hard-to-reach populations. A reasonable method for meeting this requirement is for the exchange board to appoint an advisory committee responsible for reporting to the board on a regular basis.
- Stakeholder Advisory Committee and Consumer Advisory Boards. Establish a stakeholder advisory committee and consumer advisory boards to advise the exchange governing board.

Formally establishing three consumer advisory boards for continuous communication from a broad array of stakeholders on issues related to exchange functions.

- ❖ A board for consumers who buy individual coverage through the exchange;
  - ❖ A board for small businesses who use the exchange and the brokers who assist them in obtaining coverage; and
  - ❖ A board for carriers who participate in the exchange.
- ✓ Executive Leadership Team. While the exchange board will provide guidance based on the exchange's guiding principles, the executive leadership team will operationalize the exchange board's principles and policy guidance. This will ensure the exchange functions as a consumer-oriented organization to promote improved access to coverage and quality customer service.

The leadership team, in partnership with exchange participating carriers should work to improve enrollees' health care experience and contain health care and health insurance costs. The leadership team will draw on their experience in financial management, information technology, the insurance industry, marketing and communications, and organizational management and operations.

\* \* \* \* \*

#### 4. EXCHANGE ORGANIZATIONAL STRUCTURE

- Establish the 2014 Iowa Purchasing Exchange as a nonprofit corporation.

Iowa's 2014 Purchasing Exchange should be established as a nonprofit corporation. A nonprofit corporation can be accountable to the public interest but not beholden to state politics or budget cycles. No matter what governance model is chosen for a 2014 purchasing exchange, the entity must be given authority and flexibility under statute to do its work.

A prospective model for a 2014 purchasing exchange board is found in Iowa Code §514E.2 Iowa Comprehensive Health Insurance Corporation.

#### DISCUSSION

The following characteristics are highly desirable in an exchange.

- **Flexibility and agility.** As federal reform is in flux, exchange best practices will change over time, as will state and federal regulations, therefore flexibility is a necessary component to exchange sustainability.
- **Responsiveness.** The exchange must be maximally responsive to consumers, health plans and the state.
- **Consumer Focus.** The exchange must provide significant value and improved access for individual and group purchasers.
- **Ability to work with existing state agencies.** The exchange must establish and promote a positive collaborative working relationship with the Iowa Insurance Division, and the departments of Human Services, Public Health, and Revenue.

In considering whether an exchange should be created as a nonprofit entity, the following should be considered.

**Flexibility/Agility.** To facilitate the exchange's ability to focus on consumers and maintain good relations with the insurance carriers who will participate in the exchange, a 2014 purchasing exchange must be able to act quickly on its consumers' behalf. Due to state procurement, hiring and personnel rules, state agencies are not considered especially nimble or flexible. Exemptions can be made from specific rules, but authority to waive specific rules must be specified in statute. A nonprofit corporation can be independent from state fiscal processes and insulated from political wrangling, offering flexibility in the face of change.

**Responsiveness.** Oversight is easily achieved for a state agency. A governmental agency's ability to be responsive to stakeholders outside of the state government can vary, and is potentially hampered by limited agency flexibility. Consumer advocates have argued that a state agency would ensure accountability to consumers as the agency would exist for the benefit of

consumers. A non-profit corporation can build in accountability and responsiveness to the public by clearly identifying these as core organizational principles, while simultaneously prioritizing flexibility and agility.

Ex-officio Members. Another way to build in oversight and accountability is to allow state officials who participate as 2014 purchasing exchange ex-officio board members to serve as full voting members of the exchange board.

Ability to work within state structures. A state agency would fit well within a consolidated health access and promotion program operated by the executive branch of state government. A nonprofit corporation can act in coordination with state agencies. Statutory direction to all involved agencies to coordinate their activities with an exchange will be necessary no matter what structure the exchange takes.

Sustainability. To maximize its sustainability over time, a 2014 purchasing exchange should not be hobbled by the budget cuts or political swings that can greatly affect state agencies. A nonprofit corporation funded by user fees would exist outside of the state budgeting and legislative cycles that define many state agencies.

Public perception. A nonprofit exchange model can avoid the “welfare” stigma that can arise from state agency involvement. The perception often exists that when a state agency runs a government program, the activity must by default involve a social service program aimed at a low-income population. While many people understand that the subsidy portion of the exchange is available for both moderate and middle-income lowans, distaste for public programs could dissuade some persons from enrolling in the exchange and stymie the goal of improved and coordinated access to coverage.

Conversely, while some lowans may be scared off by a state agency-administered exchange, many people will trust a state agency model, knowing that public-sector entities have a public-focused mission. Non-profit entities can certainly have a public mission, but it is not always understood that a nonprofit will have an iron clad public service orientation.

Mission, oversight and leadership are key. Ultimately, the type of organizational structure will matter less than a clear mission of improving health care access and quality that is carried out by a strong governance board and executive leadership team.

\* \* \* \* \*

## 5. NUMBER OF EXCHANGES

- Establish the 2014 Iowa Purchasing Exchange as one organization with individual and small group product lines.

- ✓ An exchange should operate as a single organization that offers products and services targeted at individual and small employer group customers.
- ✓ Using a common entry point, access to the correct information and assistance will be provided based on information about the consumer's needs and interests.

## DISCUSSION

The Patient Protection and Affordable Care Act requires states to build an exchange for individual market purchasers and a Small Business Health Options Program (SHOP) exchange. However, the law allows a state to combine individual and small group exchanges into one organization, as long as the state has the resources available to do so.

**Single point-of-entry.** From a customer service perspective, having “one front door” for all insurance purchasers means that people are less likely to be turned away or frustrated as they attempt to get information or to enroll in insurance coverage. Technology exists to allow customers to provide information and be seamlessly offered relevant options.

**Efficiency.** Developing a single exchange for both groups is more efficient than building two separate and essentially parallel organizations, each with its own administrative and technological needs. If two organizations are built, they could use a shared services model, but this is unlikely to be as efficient as building one exchange with two product lines.

**Build seamless entry.** The development of the technology needed to ensure simplified and seamless use of a single entity with multiple product lines will require significant financial and other resources. While the development will take some effort, the resulting infrastructure can improve access for both individual and small group insurance purchasers.

**Promoting Smooth Transitions.** Individuals will need to move between group and individual coverage due to job or other life changes. The exchange will provide increased value for consumers insofar as it can minimize disruption in the receipt of health care due to such changes. The exchange should facilitate smooth transitions between coverage as people move between jobs or make other changes that affect insurance coverage.

**Enhance Offerings.** A single exchange can actively encourage participating carriers to offer both individual and group market plans. Ongoing access to carriers is one of the key ways disruption is minimized for people switching between a carrier's group and individual coverage. Carriers will have an incentive to participate in both markets to retain individual purchasers who leave group coverage.

\* \* \* \* \*

- Iowa should create one 2014 Purchasing Exchange that provides services throughout the entire state.

## DISCUSSION

The PPACA allows states to operate one or more exchanges within distinct geographic regions of the state. While Iowa includes urban, suburban and rural areas operating under different market conditions, for the most part Iowa is a single market. This is in contrast to some of the larger states such as California or New York, with their very distinct geographic and demographic regions within a single state. These larger states could benefit from regional exchanges, but in smaller states a statewide exchange can better harness one pool of funds to provide web and telephone phone access statewide.

\* \* \* \* \*

## 6. MULTI-STATE EXCHANGES

- Iowa, while pursuing its own 2014 Iowa Purchasing Exchange could consider partnership with one or more states to create a regional exchange.
- ✓ Pursuing a single state exchange will allow Iowa to pursue its own policy decisions. While building a regional exchange may provide some benefits in terms of administrative cost savings, these savings are generally financially limited, and may present difficult challenges (working with two sets of state rules, legislatures, and administrations) which could be significant barriers to exchange development.
- ✓ To capture some of the efficiencies of scale that can result from working with another state while still avoiding the complications of a multi-interstate exchange, Iowa should investigate ways it can enter into partnerships with neighboring states on exchange infrastructure development and other operational tasks.

## DISCUSSION

A successful exchange must enroll a significant consumer base within a relatively short time. If two or more states joined together to form one exchange, this could help guarantee a larger number of participants, which would then spread administrative costs over more people. Further, as all states will be setting up similar entities, economies of scale could be expected if two states share exchange administration.

The specter of potential cost savings may make the development of a multi-state exchange look promising. The reality is that creating a multi-state exchange can be a very costly endeavor. While sharing development and operational expenses with another state can reduce administrative costs, administrative costs represent but a small portion of the overall cost of health insurance. For example, a single percentage reduction in administrative costs will only result in a fraction of a percentage reduction in the total cost of purchasing coverage. While the reduction is real, it must be viewed considering the potential additional effort required to develop a multi-state exchange.



The 'Practical Reality.' Since developing an exchange requires legislative action, creating a multi-state exchange would mean getting the approval of two state legislatures and two state administrations. Each exchange design issue, from structure and oversight to the most mundane administrative rules would have to be agreed to by officials in the involved states. Adding even more complication is that states have different legislative timelines and economic circumstances. Pursuing a single state exchange strategy in Iowa will allow our state to forge our own policy decisions.

The Importance of Locality. An exchange must first be able to provide relevant assistance to individuals in a local area. A multi-state partnership will not improve a state exchange's ability to provide good, useful information and support to its local customer base.

\* \* \* \* \*

## 7. EXCHANGE OPERATIONS

- Use benefits and other requirements to ensure the 2014 Iowa Purchasing Exchange participation provides meaningful consumer choice.

In establishing benefits and other requirements for health plans participating in the exchange it is important to:

- ✓ Refrain from arbitrarily limiting carrier participation in the exchange to a specific number of carriers or products.
- ✓ Promote meaningful plan choice by helping purchasers navigate options based on individual preferences and needs.
- ✓ Retain the authority to increase or change participation standards based on the experience of the exchange over time.
- ✓ Identify health plans that meet higher quality and/or cost standards.

## DISCUSSION

The PPACA allows states to set insurer participation rules. States may limit participation to carriers that meet exchange standards and whose participation is considered to be in the state's best interest.<sup>1</sup> It is important to consider the extent to which broad plan choice is beneficial or meaningful to purchasers. While a broad array of choices can be valuable, there may be a point where the sheer amount of choices act as barriers to informed participation. The defining criteria in determining the proper volume of choices, is that choice must provide value to purchasers and not a means for carriers to segment the insurance marketplace.

---

<sup>1</sup> PPACA Part II, § 1311(e).

The PPACA allows an exchange to define health plan certification standards for carriers participating in the exchange. The exchange may need the statutory authority to establish additional participation standards. With this authority, the exchange can define standards that are strong enough to ensure quality yet not so stringent as to needlessly limit the choice of plans. Meeting the exchange's requirements is a decision then left to the carriers.

The Exchange "Seal of Approval." Plans sold through the exchange will meet additional participation standards, effectively giving a seal of approval to exchange plans. This "seal" will be supported by the federal requirement that exchanges develop a rating system for plans and provide consumers with information on plans' ratings based on their quality and price.

An area that may be useful for the exchange to explore is the possibility that the exchange could selectively contract with one or more participating carriers. These specific health plans could receive a "preferred" or "high value" designation based on their meeting specified higher quality and cost standards. This could have the potential to encourage other carriers to improve the quality of their offerings to meet the higher standards and get the quality designation.

Meaningful Variation and Useful Navigation. There is always a tension between requiring standardization and promoting innovation. Excessive variation promotes confusion, and simplification has always been an important exchange goal. An Iowa 2014 purchasing exchange should promote and not actively or inadvertently limit innovation in areas such as payment models, delegation of authority and medical homes. Instead of limiting carrier choice, the exchange should focus on how to promote meaningful ways for purchasers to figure out what plans best meet their needs. Iowa can build additional navigation functions into its exchange tools, such as prompting purchasers to ask questions they may not be familiar with, such as who are the network participants and what care coordination or other services are available. It is important to remember that while excellent tools may help purchasers make meaningful choices it can be very difficult for individuals to anticipate future medical needs, so making choices about what plan will be best over time will always present a significant challenge.

The goal should always be to offer adequate choice and promote purchasers' ability to navigate coverage/cost options and make meaningful choices. Over time, the exchange will want to be able to use experience to modify its rules. Therefore, it will need to have adequate statutory authority to change carrier participation rules in light of experience demonstrating a need for change.

\* \* \* \* \*

- Young Adult/Catastrophic Plan will only be sold by 2014 Iowa Purchasing Exchange participating carriers.
- ✓ Allow products identified as young adult plans and "catastrophic" insurance packages to be sold only by carriers participating in the exchange.

## DISCUSSION

The PPACA allows a catastrophic plan to be sold to persons under age 30 and to anyone who has obtained a hardship exemption from the PPACA coverage mandate. The catastrophic plan will provide coverage for essential health benefits, with deductibles based on those allowed for Health Saving Accounts qualified high deductible health plans. Deductibles will not apply to at least three primary care visits.<sup>2</sup>

Since these plans may only be sold to specific types of purchasers, it will be necessary to certify buyer eligibility to enroll in catastrophic plans. The easiest way to do this is through an exchange. If the catastrophic plan is sold outside the exchange, additional coordination will be required to ensure the exchange receives the information it needs to record the transaction. In addition, exempt persons and young adults covered by these catastrophic plans have a stake in the exchange providing information to the federal government, so that they can be assured they will not be wrongly penalized for not purchasing a qualified health plan.

Offering young adult and catastrophic coverage plans through exchange-participating carriers can provide an incentive to carriers to participate in the exchange. As young adults tend to be healthier than the aggregate under age 65 population, this group is potentially lucrative to carriers. It is also a group that has historically has somewhat shunned coverage, and it is expected many Iowans in this age group will be new entries into the health insurance market.

\* \* \* \* \*

- Set minimum standards for plan offerings sold in individual and small group markets.

The PPACA requires<sup>3</sup>:

- ✓ All health plans meet federal essential benefits requirements.
- ✓ All companies selling insurance in Iowa must offer at least “Bronze” and “Silver” plan offerings. Carriers may also offer plans in addition to these plan levels.

## DISCUSSION

**Minimum Coverage.** The PPACA amends the Public Health Services Act, directing carriers to ensure that the coverage offered through the individual and small group markets includes the essential health benefits package identified in PPACA § 1302(a). Exemptions are made for the so-called “grandfathered plans” (those issued before March 23, 2010) and insurance purchased by large employer groups covered by ERISA. As mentioned previously, young adults (under age 30) and persons exempt from the PPACA coverage mandate are specifically allowed to

---

<sup>2</sup> PPACA, § 1302(c).

<sup>3</sup> Exemption exists for “grandfathered” plans sold before March 23, 2010, and for plans covered by ERISA.

purchase “catastrophic/young adult plans” with higher deductibles than permitted in other forms of coverage.

**Coverage Level Requirements.** Iowa will need to ensure that its laws and regulations are consistent with the federal standards for catastrophic plans. In addition, the state may want to take steps to ensure that insurance carriers do not attempt to market to low risk people by offering only the lowest cost and coverage plans. Requiring that all carriers selling coverage in Iowa offer at least the bronze and silver level plans will help avoid this scenario.

The PPACA Bronze, Silver, Gold and Platinum coverage levels each provide coverage for a specified share of the full actuarial value of the essential health benefits. (60% for bronze – 90% for platinum). Federal law requires that carriers participating in a PPACA exchange must offer at least a silver and a gold level plan. While carriers not participating in the exchange may not want to offer all plan levels, the state can require carriers to offer both bronze and silver level plans.

\* \* \* \* \*

- Iowa should use insurance agents and brokers to help individuals and groups obtain coverage through the 2014 Iowa Purchasing Exchange.
- ✓ Use insurance agents and brokers to help people buy insurance through Iowa’s exchange. Consider giving the exchange the authority to appoint agents and pay them directly instead of having them paid by individual insurance carriers.

## DISCUSSION

The PPACA allows states to decide whether to use agents in the exchange, while requiring states that do use them to follow certain rules. Agents are very knowledgeable about a range of insurance products and can be helpful for individuals and groups seeking to buy insurance through the exchange. Agents can help explain the benefits of exchanges for individuals seeking to access tax credits, for persons not accessing financial assistance, and for employers seeking to offer a range of coverage choices to their employees.

**Agent Education and Reimbursement.** Consistent with federal rules, the exchange board should have the authority to determine the manner and amount of agent compensation. Iowa could provide a certification process with standards set by the exchange board for agents selling exchange products. Insofar as the exchange educates agents on exchange benefits and offerings, agents can be a useful resource to consumers and can actively help the exchange become sustainable.

**Navigators.** Other organizations will become navigators as well. It may be necessary, to make the best use of navigators, for some of their functions to be exempt from producer licensing requirements.

## 8. EXCHANGE – BENEFITS

- Give the state authority to make changes to benefit requirements and mandates.
- ✓ Once the federal government establishes the requirements for essential health benefits, the state should retain its authority to make changes to benefit requirements once more information is known on the federal requirements.

### DISCUSSION

To ensure that the exchange is responsive to consumer needs over time, the exchange board should have the statutory authority to establish standards that emphasize quality, access and evidence based health care.

\* \* \* \* \*

## 9. EXCHANGE – TIMING

- Allow employer groups with 1-50 employees to enter the 2014 Iowa Purchasing Exchange in 2014 and allow groups with 51-100 employees to enter in 2016.
- ✓ During the first two years of exchange operations, (2014 – 2015), enrollment will be limited to individual purchasers and employer groups with up to 50 employees.
- ✓ The PPACA allows eligibility for employer groups to expand in 2016 to include groups with up to 100 employees.

### DISCUSSION

The PPACA gives states flexibility in determining whether to define exchange- eligible small employer groups as 1-50 or 1-100 in 2014 and 2015. Starting in 2016, exchanges are required to allow entry to employer groups with up to 100 employees. Significant insurance market changes will take place in 2014. While many of these changes will benefit lowans, they have the potential to cause disruption for others. Waiting until 2016 to change the definition of a small group will limit disruption for employer groups.

\* \* \* \* \*

- Consider an early Iowa Purchasing Exchange implementation if tax credits for individual market purchasers can be made available before January 2014 and Iowa's state of exchange readiness would permit it.
- ✓ Investigate whether federal tax credits can be made available for individual insurance purchasers before January 1, 2014, possibly on a pilot basis.

## DISCUSSION

The PPACA provides insurance subsidies in the form of tax credits beginning January 1, 2014. Iowa may want to investigate whether its residents could access subsidies on a state pilot basis to implement an exchange earlier than 2014. This would require that the state's exchange be in an advanced state of readiness.

Subsidies for insurance purchase will undoubtedly be a key driver for many individual market purchasers to buy insurance through the exchange. Without access to subsidies, there is little incentive for the currently insured to change coverage, and many of the uninsured will be unable to buy insurance without the support of federal tax credits.

**Enrollment and Self Sufficiency.** The PPACA requires state exchanges to become self-supporting in 2015. To meet this test, an exchange, once operational, will need to enroll people quickly. The exchange will have fixed costs (costs that do not change based on the number of enrollees), larger numbers of enrollees in an exchange makes these costs more sustainable and lower on a per-enrollee basis. If the exchange can expect to enroll a sizable population in advance, it will make the exchange easier to fund and could promote the exchange's ability to support itself over time.

**Waiting for Federal Guidance.** Pushing the exchange to become operational a year before the January 2014 date set out in the PPACA reduces the time available for vital exchange planning and implementation.

\* \* \* \* \*

## 10. EXCHANGE – RISK REDUCTION MECHANISMS

- Iowa should work with the federal government to implement exchange risk adjustment measures.
- ✓ Iowa should coordinate its policies with the federal government where necessary, to implement the reinsurance, risk adjustment and risk corridor mechanisms.

## DISCUSSION

The PPACA identifies three risk spreading or risk mitigation programs that will begin in 2014: risk adjustment; reinsurance; and risk corridor. The first two are to be administered at the state level, while the risk corridor requires a federal effort.

The state risk adjustment program will apply to individual, small group and some large group products. The program will redistribute money from plans that incur lower than average risk to those with higher than average risk. The US-HHS Secretary will establish criteria and methods to structure the state programs.

The reinsurance program is for individual market plans. Although administered at the state level it will be based on federal standards.

The risk corridor will apply to individual and small group products offered through the exchange and is based on the risk corridors used in Medicare Part D.

The reinsurance and the risk corridor mechanisms will be time limited, lasting only for three years starting in 2014. The risk adjustment mechanism will be permanent.

The state will need statutory authority to establish these mechanisms, but no decisions are needed about whether to implement these efforts.

\* \* \* \* \*

## 11. EXCHANGE – FUNDING OPERATIONS

- A fee on premiums sold through the 2014 Iowa Purchasing Exchange possibly coupled with assessments will provide ongoing exchange funding.
- ✓ Implement a fee on plans sold through the exchange that will be paid through premiums.

### DISCUSSION

The federal government will provide states with start up funds in the form of grants for exchange development and implementation. Iowa has already received an exchange planning grant and will presumably be applying for an implementation grant in early 2011 (anticipated grant application with quick turnaround funding.) This will help cover exchange development costs.

By January 1, 2015, the state exchanges must be self-sustaining. The PPACA allows an exchange to charge user fees or assessments to support its operations. To make user fees a viable financial mechanism, the exchange will need to get up to scale quickly. For example, in 2009, the Massachusetts exchange had a fee of 4% of premium, with enrollment of approximately 187,000 lives.